Supreme Court, U.S.
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No. 08-_____ 08-859

In The

Supreme Court of the United States

800 ADEPT, INC.,

Petitioner,

v.

MUREX SECURITIES, LTD., MUREX LICENSING CORPORATION, TARGUS INFORMATION CORPORATION, and WEST CORPORATION,

Respondents.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Whether a district judge's construction of a patent claim is ever entitled to deference upon appellate review, or, instead, are all such claim constructions reviewable only *de novo*, as the Federal Circuit has, over many dissenting opinions, held?

2. If district court claim constructions are ever entitled to deference, as many courts and commentators have advocated, did the Federal Circuit improperly fail to accord deference to a seasoned district judge's "Markman" instruction in this case, in which her instruction was modified during trial to take account of expert testimony concerning the patent's teachings to those of ordinary skill in the field of invention?

3. Did the Federal Circuit improperly set aside the jury's verdict of infringement as if it were the finder of the facts?

4. Has the Federal Circuit applied the proper standard, and the proper quantum of proof, for determining liability under state tort law for making baseless assertions of patent infringement?

5. Did the Federal Circuit apply an improper standard of review in setting aside the jury's verdict, which found that Respondent had acted in bad faith in knowingly asserting invalid or non-infringed patents against Petitioner's customers?

PARTIES TO THE PROCEEDINGS

The parties are those listed in Petitioner's caption of the case.

RULE 29.6 STATEMENT

Petitioner 800 Adept, Inc., is not a publicly traded corporation, and no publicly held corporation owns more than 10% of its stock.

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OPINIONS BELOW

The opinion of the court of appeals is reported at 539 F.3d 1354 (Fed. Cir. 2008). The district court's post-verdict rulings are reported at 505 F. Supp. 2d 1327 (M.D. Fla. 2007). The principal "Markman" opinion is available at 2006 U.S. Dist. LEXIS 53696 (M.D. Fla. Aug. 3, 2006).

JURISDICTION

The court's judgment was entered on August 29, 2008. The order denying rehearing and rehearing en banc was entered on October 6, 2008. This Court's jurisdiction is invoked under 28 U.S.C. §1254(1).

STATUTES AND RULES INVOLVED

Section 282 of Title 35, United States Code provides, in relevant part:

> "A patent shall be presumed valid . . . The burden of establishing invalidity of a patent or claim shall rest on the party asserting such invalidity."

Rules 50(a) and 52(a) of the Federal Rules of Civil Procedure, which are also involved, are reproduced in the Appendix.

STATEMENT OF THE CASE

Chief Justice Rehnquist, speaking for the Court in *Wainwright v. Sykes*, 433 U.S. 72, 90 (1977), famously remarked that the trial on the merits should be the "main event" rather than a "tryout on the road" for a later appeal. This should be as true in patent cases as any other. *Cybor Corp. v. FAS Techs.*, 138 F.3d 1448, 1473 (Fed. Cir. 1998) (in banc) (Rader, J., dissenting). But it is not true in most complex patent litigation; for in such cases the trial court – no matter the expenditure of judicial labor, no matter the experience of the judge – has become but a way station to the "main event" in the Federal Circuit, where the judgments of the court and jury are accorded little or no deference and where the Federal Circuit has reserved unto itself the right to engage in an "independent determination of the construction of the claims, as a matter of law, unencumbered by the trial process." *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 72 F.3d 857, 863 (Fed. Cir. 1995), vacated on other grounds, 520 U.S. 1111 (1997). The dynamic driving this process, as well as the enormous reversal rate in patent cases, is the Federal Circuit's *de novo* standard of review. The *de novo* standard is over-inclusive: not all patent claim constructions are purely matters of "law"; trial judges often make claim constructions informed by a careful assessment of the evidence adduced either in a "Markman" hearing or at trial; to accord such decisions no deference on appeal is unwarranted, and conducive to both error on appeal and a stifling devaluation of the trial

judge's contributions. Moreover, the *de novo* standard has introduced what Judge Newman has aptly characterized as "a sporting element to our bench,"[1] in which litigants and judges have resorted to "unexpectedly creative de novo claim interpretations"[2] and in which some judges have regularly felt no compunction about re-weighing the evidence entirely anew, like a "super-juror."[3] The present case illustrates both of these dysfunctions: (a) the use of the *de novo* standard to adopt a claim construction at odds with that of the district court, the patent itself and expert testimony while ignoring the fact-finding that informed the district judge's decision, and (b) substitution of the appeal panel's judgment for that of the jury. The *de novo* standard has unwisely magnified the Federal Circuit's power in patent litigation, making it the only decision-maker of importance in such cases. As Judge Mayer has lamented:

> . . . we have taken this noble mandate, to reinvigorate the patent and introduce predictability to the field, and focused inappropriate power in this court. In our quest to elevate our importance, we have, however, disregarded our role as an appellate court; the resulting mayhem has seriously undermined

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[1] *Cybor Corp v. FAS Techs.*, 138 F.3d 1448, 1479 (Fed. Cir. 1998) (in banc) (Newman, J., dissenting).

[2] *Id.*

[3] W. Rooklidge and M. Weil, *Judicial Hyperactivity: The Federal Circuit's Discomfort with its Appellate Role*, 15 Berkeley Tech. L.J. 725, 747 (2000) ["Judicial Hyperactivity"].

> the legitimacy of the process, if not the integrity of the institution.
>
> *Phillips v. AWH Corp.*, 415 F.3d 1303, 1330 (Fed. Cir. 2005) (in banc) (Mayer, J., dissenting).

This case also presents an opportunity to correct a related dysfunction: the proclivity of the Federal Circuit to use its review powers, even outside of the context of claim construction, to reexamine the facts rather than to review the record for legal sufficiency in conformity with this Court's precedent. In setting aside the jury's tort verdicts here, the court applied a "patent preemption" analysis which is inconsistent with *Professional Real Estate Investors v. Columbia Pictures Indus.*, 508 U.S. 49, 63 (1993) and *Wood-Paper Co. v. Heft*, 75 U.S. 333, 8 Wall. 333 (1869), and indulges in credibility and other factual inferences that only a jury can make, while improperly applying a clear and convincing standard of proof.

A. The Parties and Their Patents

Petitioner 800 Adept, Inc. ("Adept") owns patents directed to the "automatic direct routing of telephone calls" from customers who call an 800-type number to the appropriate service provider. (P11, Col:1:18-21). Adept's patents use latitude-longitude coordinates to enable precise routing of 800-type calls to dealers selected according to customer criteria. (P1). The principal Adept patent at issue is U.S. Patent Re. 36,111 (the "'111 patent") (P1).

Respondent Targus' Information Corp., and its Murex affiliates, compete with Adept in the same service market and also hold a number of patents concerning 800 call routing. (App.2). Respondent West Corporation ("West") operates a telephone "platform" for routing 800-type calls and is a routing partner of Targus (App.223-224).

Adept commenced this litigation after Targus and its Murex entities threatened a number of Adept's customers (App.290-291; App.300-303; App.320-322), suing three of them (App.337-363). The jury found, among other things, that Adept's patents had priority over certain Targus patents, that all claims of two Targus patents were invalid, that the asserted claims of Targus' remaining patents were invalid, that Targus had willfully infringed Adept's patents, that West had also infringed Adept's patents, and that Targus had wrongfully interfered with Adept's customer relationships by asserting – in bad faith – patents that were invalid, not-infringed and, in one instance, not even owned by Targus. (App.115-124). The jury awarded Adept $18,000,000 for patent infringement, and $7,000,000 (including punitive damages) on Adept's tort claim. (App.117; App.123-124). Chief Judge Fawsett enhanced the patent damages, remarking that the "Murex-Targus parties aggressively expanded their share of the market using studiously duplicitous business methods to the disadvantage of 800 Adept." (App.104).

B. Neville's Prior Conception

Adept's inventor, Neville, conceived of and reduced to practice his inventions to route 800-type calls between August 1991 and March 1992. (App.219-220). This placed Neville well ahead of the Targus inventors, Moore and Shaffer, who claimed to have invented much of the same subject matter as Neville, but did not begin their inventive efforts until Spring 1992 (App.284-288) and who filed their first patent application in February 1993. (P20). The initial patent applications filed by both sets of inventors disclosed the use of databases associating potential caller locations with nearby dealer locations using client-supplied criteria. (P1-2; P65).

Neville's preferred database contains all ten digits of a potential caller's phone number (the "ANI") and the corresponding telephone number for the dealer nearby the caller's location. Neville selects dealer numbers in accordance with client criteria, which may include, "existence within a previously-defined geographic area, a custom defined geographic area, or . . . calculations such as the shortest distance between coordinate points." (P1). Neville's preferred database may be viewed conceptually as a one-table, two-column database of caller numbers and their corresponding dealer "downlines." Neville also conceived of a default approach, called "predominance," if the caller's ANI is, for whatever reason, not in the database. (P14-16, Col:7:29; Col:11:7-14).

Adept's Neville patents also disclose that the claimed call routing "database" may be a relational or hierarchical database, in addition to the preferred one-table system, and that two or more database tables can be linked together by a "key or primary field in the database" using the caller's ANI or the "vertical/horizontal coordinates of the ANI" (P15, Col:9:48). Undisputed testimony established that one of ordinary skill in the field of invention would understand that Neville's database may thus be implemented as a two or multi-table relational system in which the caller's number is linked, when the call is received at a telephone platform, with a dealer's number that has been mapped or "assigned" to the caller's location in advance of the call. (App.175-178). If you called a pizza vendor's 800 number, therefore, Neville's invention could be used to identify the caller's ANI, find the single franchisee or dealer already assigned to the caller's location, and automatically route your call to the dealer, using (among other things) any of three types of databases: single-table, relational or hierarchical. (App.196).

The first Targus patent was U.S. Patent 5,506,897 (the "'897 patent"), which is directed to a two-table database: a "master table" of caller phone numbers and their associated zip+4 codes, and a client table of service locations indexed by a so-called "spatial key," preferably the zip+4 code. (P60, Col:29:29-42). The '897 patent's database is relational: its master table of caller numbers is linked with a client table of dealer numbers to produce "a

selected client telephone number" when the call enters the telephone platform. (P21, Fig.1b). Because the use of a relational system employing the latitude-longitude coordinates of the caller's zip+4 code as a single value "key" (or primary field) had already been disclosed by Neville, Adept's experts supported the view, and the jury found, that all claims of the '897 patent are either anticipated or rendered obvious by Neville's patents. (App.174-178; App.196-197).

Targus' second patent was U.S. Patent 5,848,131 (the "'131 patent"), which discloses a three-table relational database linked, as in the '897 patent, by a "spatial key." Targus made a pre-critical date sale of this invention (App.199-200) pursuant to a written contract, which transferred to Federal Express the right to patent it. (App.127-129; App.282-283). Most of the details of this activity were not disclosed to the Patent Office: the contract terms assigning the right to patent the invention to Federal Express; the pre-critical date success of the system for which Targus was paid; the commercial rather than experimental purpose of the project; and the readiness of the invention for patenting prior to the critical date (App.127-129; App.199-200). The jury, considering these facts on agreed instructions concerning the on-sale bar and obviousness, found the entire '131 patent invalid. (App.119-120).

Beginning in 1996 Targus filed a series of patent applications, mostly continuations of Targus' earlier applications. These included the '868 patent, the '608

patent, the '810 patent, and the '397 patent, all of which may conceptually be viewed as the '868 Family of Patents. (App.198). A number of the claims in the '868 Family of Patents are one-table claims that Targus aimed squarely at Adept and its customers. (App.197-198). The '608 patent, for example, in Targus' own words, has claims directed to a database "like 800 Adept (Neville) uses" for "pinning Neville and Neville's clients into a corner." (App.304-305). In this same internal document, Targus acknowledged that the prior Neville technology used an automated GIS system. Yet when Targus sought in the Patent Office to distinguish its application from that of Neville's, it falsely asserted that Neville did not disclose an automated or computerized process for building a single-table database (App.130-131). When the '608 patent's one-table claims were asserted against Adept at trial, the jury found them invalid. (App.120).

An additional two Targus patents, the '179 and the '214 patents, disclosed a spatial key linked, multi-table database (P123, Fig.1), for linking many different databases for providing information to callers, service locations, or advertisers. (App.200-201). These patents were said to be representative of Targus' actual call routing system at the time of trial. (App.263). The jury found the asserted claims of these patents to be invalid as well, based on a combination of Neville and other prior art references. (App.120-121).

Yet another patent asserted by Targus was the Riskin '267 patent (P181), which had been distinguished as prior art in both the Adept and the Targus patents. (P1;20;67;121;182-189). Targus purchased this patent while it was preparing for what it characterized as a forthcoming "pitched battle with Adept," (App.311), and then asserted it against Adept's customers and finally Adept itself. (App.290-291; App.337-363). Prior to trial Targus conceded (App.153) that it could not go forward with its Riskin patent claims against Adept, in light of the court's never-challenged Markman construction, but it nevertheless refused to dismiss this aspect of its suit. (App.157-158).

C. The Evolution of Targus' "Patent Wars" Against Adept

Adept's tort claims against Targus arose from a lengthy sequence of clashes in the Patent Office, the marketplace and in court, as Targus endeavored to "turn[] up the heat" (App.318) on Adept's largest customers as it prepared for its "patent war" with Adept. (App.313).

Shortly after filing its '868 patent application Targus' sales manager, Ainge, pretending to be a potential customer, contacted Adept for an 800 routing solution. (App.203-207). Believing that Ainge was a genuine prospect, Adept provided him with pricing, a proposal for call routing, and the identity of its largest

clients (App.295-299), all of whom later became Targus' clients under threat of litigation (App.267-268).

When Adept sought to reissue its initial patent, which ultimately became the '111 patent, Targus vigorously protested the application. (App.132-133; App.135-136). Later, when Adept sought reexamination of Targus' '897 patent, principally on the theory that Adept's patent anticipated the claims of the '897 patent, Targus represented to the examiners, even though it had database experts at its helm (App.262-263), that Neville's invention consisted entirely of a static, one-table database whereas the '897 patent disclosed only two-table claims. (App.125-126). This contention was false. (App.180). Neville's patents do not disclose only a static, one-table system; they also disclose relational and hierarchical database embodiments, using the latitude-longitude coordinates of the caller's ANI to link together one or more tables for routing. (P15, Col:9:48-50; App.175; App.177-178). Hence at trial Adept argued, and the jury found, that Targus had misrepresented the facts to the PTO in order to survive the reexamination of its lead patent. (App.178-180; App.119; App. 180).

Having nonetheless succeeded in falsely obtaining a reexamination certificate Targus began threatening Adept's customers (App.314-315) while touting that it "dominates the intelligent call routing industry" and that "we are at least 30 times the size of Adept" (App.309). Most of the threats were made by Targus' affiliates, which Targus had formed so that Targus did "not have to sue potential customers."

(App.316). For example, when Targus' sales force was unable to induce Enterprise Rent-A-Car to switch its call routing to Targus, it enlisted Murex to engage in "*patent pressure/fear* to move this account along." (App.319). Ultimately Murex sued Enterprise, and forced it and its routing partners to abandon Adept. (App.337).

Targus' practice of initial sales efforts, followed by threats of litigation on patents later found to be invalid or not-infringed, continued even after Adept filed suit. Well into the litigation, Targus also amended its counterclaim to sue its own routing partner, Vail, which was then providing services for Allstate Motor Club ("AMC") under contract with Adept (App.137-143), but which had been collaborating with Targus to get AMC to "switch from Adept to Targus" (App.277). AMC had agreed to indemnify Vail as part of its service contract. (App.292-293). Targus and Vail thus endeavored together to pressure AMC over the Targus patents, even applying pressure on Adept's representative for AMC's business. (App.318). While these efforts were ongoing, Targus served Vail with its counterclaim but never required Vail to respond (App.144-152); instead, Targus and Vail continued to work together to intimidate AMC, using the suit as a means for inducing fear on the part of AMC that it would be forced to pay for defending Vail against hundreds of patent claims (App.271-281). Faced now with the possibility of defending Vail in what Adept contended was a sham lawsuit, AMC demanded that Adept make the litigation "go away."

(App.208-209). When Adept could not make the litigation "go away," AMC – which had just given Adept an award for a decade of valuable service (App.210) – moved the business to Targus and Vail (App.289), reasoning that "it would be cheaper to take a license than try to defend a patent infringement lawsuit." (App.308). Thus as Adept approached a trial in which it prevailed on every asserted theory of liability, Targus succeeded in switching, by the compulsion of a feigned suit with its partner, Adept's largest remaining customer. (App.317; App.307-308).

D. The District Court's Markman Rulings

The Adept patents as well as the Targus call routing solutions are implemented through a telephone "platform" provider, like West. (App.2). When an 800-type call works it way through the telephone network to the platform the caller's ANI is captured, along with the 800 number dialed (the "DNIS"). The database for the correct 800 client is then accessed, and a series of calculations are made while the caller is on-line to retrieve the dealer's number and possibly other information concerning the dealer location (App.5-6). In Adept's preferred embodiment, the on-line calculations usually amount to a speedy look-up process to obtain the single franchisee or dealer assigned to the caller's location. (P12-13, Col:4:45-Col:5:20; App.181-183). In the relational approach disclosed in the Adept patents (Id.) and in the '897 and '131 patents (App.177-178) and in the Targus routing products (App.230), the caller's ANI is

matched to a database, where the ANI (or a default) has been assigned latitude-longitude coordinates (such as the coordinates for the zip+4 code of the ANI). These coordinates are then used to retrieve, by a series of on-line calculations, the dealer already assigned to the caller's location, using the client's criteria – such as the franchise territory from which the call is placed or the one dealer closest to the caller's location, by radius. (App.228-229). The correct dealer – the one fitting the client's territorial criteria – can be retrieved in this way only because Targus or Adept, as the case may be, has previously designated or "assigned," in advance, before the call, the dealer number that will be retrieved when the caller calls. (App.255). Targus does this by supplying its clients with digital tools which locate the latitude-longitude coordinates for each of the client's dealer locations. (App.228-230). It then employs a series of algorithms that have been pre-computed to retrieve the one dealer telephone number assigned, before the call, to the caller's location when the call arrives at the platform. (Id.). This designation-by-algorithm, according to Adept's experts, constituted an "assignment" before the call of the correct dealers to all potential callers in accordance with the 800-client's criteria. (App.255).

Targus contended that it did not "assign," within the meaning of the Adept patents, to potential callers a telephone number of a client's service location until the telephone call arrived at the platform, and that it was only then that its computers made calculations to

"determine" the dealer that would receive the call. (App.328). But Adept contended, and the jury found, that Targus' alleged "real time" process literally infringed the Adept patents by "assigning" before the call all potential callers to the correct service location dealers in accordance with the Adept claims. Adept asserted, for example, claim 29 of its '111 patent:

> A method for *direct routing a telephone call* from a first party . . . to a second party . . . comprising . . .
>
> (a) allocating latitude and longitude coordinates to the physical location of all potential first parties;
>
> (b) *assigning* to the physical location of said potential first parties a telephone number of a service location of a second party that *will receive calls* originating from within the boundary of a geographic area in which the coordinates . . . of the physical location of each of said potential first parties lie;
>
> (c) determining the originating telephone number of the first party from which said telephone call is to be routed; and
>
> (d) *directly routing* said telephone call to a service location of the second party *assigned to said originating telephone number of the first party* by said step of assignment.

Claim 29 imposes no limitation on the type of calculations the computer may use when the caller is on-line to obtain the correct service location number worked-out in advance in the database. For example,

element (b), the assigning element, occurs before the call, in the building of the database, as all parties agreed. (App.78). Element (c) occurs on line, in order to capture the caller's ANI. (App.240). Element (d) refers to directly routing the call to the service location "assigned to said originating telephone number," but does not attempt to specify what calculations the platform's computers employ once the ANI is determined. This was because the patent was written, as Judge Fawsett ruled, to cover routing with any type of database: a one-table look-up, a multi-table relational system or a hierarchical. (App.176).

Judge Fawsett rejected Targus' key arguments concerning Adept's patent claims, including that the Neville patents had been limited during prosecution to claiming only a static, one-table database, and that Adept had disclaimed the use of on-line calculations during the call. (App.65-66; App.71). The Federal Circuit's subsequent opinion concurred in this analysis. (App.22-23). Judge Fawsett also defined the term "assigning" as "a designation made prior to the telephone call of the first parties." (App.78). This aspect of her definition was not challenged on appeal, or even in the Federal Circuit's opinion. (App.24-25).

At trial, however, Targus argued to the jury – defying Judge Fawsett's Markman ruling – that Adept "told the PTO repeatedly that real-time processing had nothing to do with their invention." (App.155-156). And with witness after witness it attempted to argue that Adept had disclaimed the use of on-line or "real-time" calculations in connection

with locating the dealer already assigned to the caller's location. (App.211-213; App.185; App.225-227). Hence at the final charge conference, nineteen days into the trial and after Adept's database expert had testified about the Adept patent and the known procedures for storing procedures and other instructions in databases (App.177-178; App.180-183), Adept moved for a clarification of the court's definition of assigning: "the defense is going to . . . say . . . the judge has told you it's [assignment] got to be done before the call, so there can't be any calculations in the Neville patent and rely upon the Court's instructions. And I want some clarification of that issue so your ruling is not misconstrued." (App.159-160). Judge Fawsett remarked that she was "concerned about this," that she had been "mulling this over behind the scenes" and:

> I am concerned about what I have done here, because . . . I did not understand that . . . there are these algorithms that can be put in there that will do these computations in a database. And so . . . saying that a designation is made prior to the telephone call of the first parties, it's set up so that this is going to happen in a certain way . . . I don't want to present this to the jury in some way . . . *that is not fair to what the testimony has been.* (App.161).

Judge Fawsett reasoned that she was "increasingly uncomfortable with her statement that skews this" and that "I do understand the argument that by saying this and with the other language that's gone

on in that file history, I may be precluding the plaintiffs from being able to present their position." (App.162).

Adept observed that one can instruct the computer "I'm going to always assign to this dealer or I can tell the computer add two plus two and the sum will be how you decide this . . . ," at which point there was the following exchange:

> The Court: But that *is* a designation made prior to the telephone call of the first party.
>
> Adept: Exactly. So, what I'm looking for is some language that doesn't confuse the jury so they understand that I *can have a stored procedure . . . that constitutes a, quote, assignment . . . but nevertheless makes that calculation while the caller is on-line.*
>
> . . .
>
> The Court: . . . All right . . . It will say, "However, the '111 and '689 patents *do not exclude calculations made during the phone call.*"
>
> Targus: I think *that's consistent with the ruling that you've already made.* (App.163-166) (Emphasis added).

E. The Federal Circuit's Claim Construction Ruling

On appeal Targus argued that this clarification was error and that because "assigning" must take place before the call, on-line "spatial" calculations – like radial or territorial calculations – to locate the

dealer already mapped to the caller's location to meet a client's criteria cannot infringe the "assigning" limitation. (App.326-328). Adept argued that Targus' "real-time" process met the assignment step because it pre-builds its database, just as Adept does, by defining caller and dealer locations and then assigning dealers to potential callers, using a series of algorithms pre-designated to automatically, through a series of on-line calculations, select the pre-designated service location when the caller's call arrives at the telephone platform. (App.329-336). Adept argued that while Targus uses "spatial" calculations when the caller is on-line, these calculations were entirely deterministic: they were mapped-out in advance to select the one franchise or other dealer already assigned to the caller's location before the call. (App.331-335).

Invoking its *de novo* review, the Federal Circuit accepted Targus' contentions. The court declared that the "ultimate question" was "what constitutes an assignment;" (App.17) but it *never* redefined the term itself. It agreed, moreover, with Judge Fawsett that using on-line calculations is not inconsistent with an assignment before the call. (App.22-23). It even concluded that Judge Fawsett was "correct in the first instance" when she ruled that "assigning" is a "designation" prior to the caller's call. (App.24). What, then, was the "error" in her ruling? Here the court introduces a concept neither argued in the trial court or even mentioned in Targus' briefs: *completing* an assignment on-line, a concept that *is not in the claims*. Unmoved by this fact, the court stated that

Judge Fawsett's mid-trial ruling was "imprecise" because it "allowed Adept to argue before the jury that calculations for completing the assigning step could be performed while a caller is on-line, an argument that is not consistent with the patented invention. Under the correct claim construction, assignment . . . must occur prior to any calls, and thus any calculations necessary for *completing* that assignment must be performed before any telephone calls are placed." (App.25). The court does not even mention where, or how, it found this new "complete" assignment limitation in the Adept patents.

F. The Federal Circuit's "Preemption" Analysis

Citing its preexisting patent preemption case law, the Federal Circuit began its analysis of the sufficiency of Adept's evidence on its tort claims by remarking that "a party attempting to prove bad faith on the part of a patentee . . . has a heavy burden to carry." (App.35). It then proceeded to weigh the evidence for "objective baselessness," and inferred that Targus had a "reasonable belief" that its '897 patent was valid even in the face of the false statements Targus had made to avoid the Adept patent on reexamination. (App.35). Weighing this evidence, the court concluded that many people, including the examiner, understood the Neville patent to be only a one-table system, hence no reasonable jury could conclude that Targus "lacked a reasonable basis" for believing its patents to be valid. (App.36-37). The

court goes on to conclude that Targus "reasonably believed" that its precritical date sales to Federal Express were "experimental." Thus, said the court, no reasonable jury could conclude that Targus lacked a "reasonable basis" for believing its '131 patent was valid. The court fails even to mention that Federal Express owned the invention. (App.214-218).

As to the assertion of unsuccessful infringement contentions, the court again opined that Targus reasonably believed that Adept's customers were infringing, though they were not. As for Targus' suit with Vail, the court declared that Targus "*believed that Vail infringed*" (App.39) and thus the evidence of collusion did not prove that Targus "lacked a reasonable basis for believing that Vail infringed its patents." (App.39-40). Hence, concluded the court, Adept's tort claims were "preempted by federal patent law." (App.40).

REASONS FOR GRANTING THE PETITION

I. The *De Novo* Standard Pays Insufficient Deference To District Court Fact-Finding

This case exemplifies the dysfunctions inherent in the *de novo* standard and its application in claim construction cases. Chief Judge Fawsett made a mid-trial modification of her Markman instruction to take account of expert testimony concerning the Adept patents. (App.164). That testimony (a) rebutted Targus' assertion that Adept had disclaimed all but

simple one-table look-up calculations to retrieve the dealer number already assigned to the caller's ANI, and (b) established that it was well-known in the art that databases, like those disclosed in Adept's patents, use stored procedures like Neville's "direct routing instructions," in order to make queries to retrieve information mapped-out in advance. (App.180-193; App.200-202).

Adept's experts testified that the Neville patents did disclose the use of "real-time calculations" to obtain the correct dealer already assigned to the caller location before the call. (App.181-193; App. 200-202). Relying on this testimony, Judge Fawsett concluded that her existing Markman instruction was "skewed" in favor of Targus because it allowed Targus to argue that the court's definition of "assigning" precluded the type of on-line calculations that databases must employ in order to work – in this case to locate the dealer already assigned to the caller's location before the call. (App.162-164). Hence she added a sentence to her definition of "assigning" already present in her Markman order: "However, the '111 and '689 patents do not *exclude* calculations made during the phone call." (App.165). This did not change the point on which all agreed: the assignment must be made before the call. What it did do was to preclude an unfair argument: an argument, based on ambiguous language in the prosecution history of the Neville patents, that the court's construction of the term "assigning" necessarily implied that Neville had disclaimed any use of on-line calculations, including

those that were built into the database as part of the assignment. It also preserved the plain meaning of the patent claims, which *have no limitation directed to calculations.* The last three elements of claim 29 of the '111 patent, for example, are: assigning, determining the originating number of the caller, and "direct routing . . . to a service location . . . assigned to said originating telephone number." There is no place in this language for limiting the type of on-line calculations employed to retrieve an assigned dealer.

What Judge Fawsett did, then, was to rely on the factual record to modify her instruction to prevent misleading the jury – precisely what judges do routinely to keep trials even-handed. Decisions of this character are, in most circuits, and in this Court, viewed with substantial deference owing to the unique function of the trial judge, who is present on the scene and is informed by credibility determinations as well as the evidence. *E.g., Anderson v. Bessemer City,* 470 U.S. 564, 573-75 (1985). But in the Federal Circuit, as long as such decisions can be labeled as within the broad context of a Markman determination, no deference is accorded them. *Cybor,* 138 F.3d at 1455-56. The upshot of this practice is that all of the labor of the trial judge, including her reliance upon expert testimony, can be and often is squandered, as it was here.

The appeals panel could not find literal error in Judge Fawsett's instruction. Instead, it disagreed that Neville's patent specification disclosed the use of "stored procedures" to implement an assignment

(App.19-23), ignoring in the process (a) specific disclosures such as the "direct routing instructions" and "additional direct routing instructions" that one of ordinary skill would appreciate could include instructions for retrieving the dealer "downline information" already designated for the caller's location (*e.g.*, P16, Col. 12:37-56), and (b) the testimony of Adept's experts, on which Judge Fawsett had relied. (*E.g.*, App.161). Rather than according deference to the factual component of Judge Fawsett's analysis, as Rule 52(a), Fed.R.Civ.P., requires, the appeals panel adopted out of thin air a new concept – effectively a new patent claim limitation – that is not present in the Neville patents, the file history, the trial record or the appeal briefs: the notion of a "complete assignment." It then used this new limitation to order judgment as a matter of law (JMOL) on Adept's infringement claim for Targus. As if that were not enough, the court decided issues never argued in the trial court, including whether the '111 patent's written description supported Adept's construction of the mobile telephone claims of the patent. (App.23-25). In holding that it did not, the court decided an issue, gratuitously and for the very first time – another result that could only occur because of the Federal Circuit's abuse of the *de novo* review process. This is not just wrong; it is a common-place wrong – the result of an appellate court that has lost sight of its appellate function. *Cybor*, 138 F.3d at 1473-75 (Rader, J., dissenting).

Consider how Rule 52 ought to have constrained the appeals panel given that Judge Fawsett's instruction

was informed by expert testimony from the standpoint of one of ordinary skill in the field of invention. As the panel conceded, the '111 patent is directed to *relational* databases as well as the preferred one-table database. (App.35-36). Because these types of databases work differently, the calculations the computer makes when the call arrives at the telephone platform also differ. The Adept patents do not disclose any limitations concerning the kind of calculations one may employ for either form of database; rather they disclose that you prepare the caller ANIs and "downline information" in the "desired format" of the telephone carrier and then you submit "direct routing instructions" and "additional direct routing instructions" for the carrier "as requested" by the client. (P16, Col. 12: 45-57). In other words, you submit to the platform whatever instructions are suitable for implementing the client's particular database application for the carrier. The expert testimony, which was essentially uncontradicted, was that someone with "Database Computer Science 101" training (App.173-174), would understand that among the "instructions" so assembled (before the call) for the particular client's application could be any sort of algorithm for any sort of calculation when the call arrives for retrieving the dealer already assigned, in the database, to the caller's location before the call – even a calculation that is more complex than a look-up, like, for example, Targus' distance or "spatial" calculations. (App.186). After listening to this testimony, Judge Fawsett found that her previous instruction required modification so the

jury would know that because any on-line calculation was permissible under the Neville patents, her definition of assignment – which still had to be done before the call – did not *exclude* "calculations during the phone call." (App.165).

If that finding was not clearly erroneous, it could not be ignored on appeal. And if it could not be ignored, the court of appeals was not free to rewrite the patent under the guise of *de novo* review by holding that "any calculations necessary for *completing* that assignment must be performed before any telephone calls are placed" – thereby insinuating into the patent a term neither present nor logical.[4] Instead the court would have affirmed the verdict of infringement, for there was overwhelming proof that Targus' supposed "real-time" process did assign dealers to callers before the call, using distance or point-in-polygon calculations carefully precomputed to retrieve the correct dealers designated to caller locations *before* the call (App.255-257).

There are at least four reasons why this Court should act, in this case, to correct the Federal Circuit's *de novo* "review." First, the *de novo* standard is seriously misguided. Claim construction, including the meaning of patents from the standpoint of one of ordinary skill in the field of the invention, often

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[4] Assignments are either done before the call or they are not. The Neville patents do not permit any concept of "completing" an assignment on line. (P117-120).

involves, as it did in this case, resort to judicial fact-finding. *Markman v. Westview Instruments,* 517 U.S. 370, 388 (1996) (claim construction is a "mongrel practice" that may fall "somewhere between a pristine legal standard and a simple historical fact"); *Cybor,* 138 F.3d at 1465-72 (Mayer, J., dissenting); *The Law, Technology and the Arts Symposium: Claim Construction from the Perspective of the District Judge,* 54 Case W. Res. 671, 680 (Spring 2004). To say that all such decisions, even those in which the district judge's ruling is informed by inferences from expert testimony, involve entirely legal matters "devoid of any factual component," as Judge Mayer noted, is absurd. *Phillips,* 415 F.3d at 1330. Yet if they do involve factual components, Rule 52(a) "requires that deference be given to the claim constructions of district courts." A. Brown, *Amgen v. HMR: A Case for Deference in Claim Construction*, 20 Harv. J. Law & Tec. 479, 489 (Spring 2007).

In this case, what the court disagreed with was not Judge Fawsett's construction of "assigning" but with her acceptance of *unrebutted* expert testimony that the Neville patents disclosed that one could "assign" dealers to caller locations before the call by building into the database instructions (or algorithms) that would locate only the dealer pre-chosen for the caller's location when the call entered the platform. (App.17-23). Judge Fawsett made a fact-based inference concerning what the Neville patents disclosed from the standpoint of one of ordinary skill in the field of invention – one that ought to have been

accorded deference. By characterizing her ruling as involving a purely "legal" question, however, the court was able to bypass the expert testimony which informed it and then to decide issues which Targus had not even briefed, such as whether the Neville patent enabled the use of pre-stored instructions as a means of "assigning" (App.23-24). It is the Federal Circuit's *de novo* regime that has made this sort of free-form retrying of the case on appeal a standard and unpredictable feature of patent litigation. *See Judicial Hyperactivity,* at 736-750.

Second, the Federal Circuit has lost sight of its appellate function, to the detriment of district court morale and the need of litigants to make reasonable predictions about how patents will be adjudicated on appeal. *See, e.g.*, T. Malloy & P. Bradley, *Claim Construction: A Plea for Deference,* 7 Sedona Conf. J. 191 (Fall 2006); *Lucas Aerospace v. Unison Indus., L.P.,* 890 F. Supp. 329, 333 n.7 (D. Del. 1995) (when the Federal Circuit "states that the trial court does not do something that the trial court does and must do to perform the judicial function, that court knowingly enters a land of sophistry and fiction"); W. Young, *High Technology Law in the Twenty-First Century Second Annual High Technology Law Conference: Panel Discussion,* 21 Suffolk Transnat'l L. Rev. 13, 19 (1997) (quoting another judge's similarly sardonic views).

Third, the *de novo* standard is based on a presumption that the Federal Circuit enjoys an institutional advantage over district courts in making

informed claim constructions. This is not true. District judges have more time and resources to evaluate the patent claims, file history and, where appropriate, the extrinsic evidence, than does the Federal Circuit – even to the point of obtaining court-appointed experts in the relevant art. *Amgen Inc. v. Hoechst Marion Roussel, Inc.*, 469 F.3d 1039, 1040 (Fed. Cir. 2006) (Michel, J., dissenting); *Cybor*, 138 F.3d at 1477 (Rader, J., dissenting). Judge Fawsett devoted days of effort in carefully formulating her initial Markman ruling (App.42-79) and 19 additional days in trial before concluding that assigning dealers to caller locations using pre-stored algorithms to make on-line calculations, including those employed by Targus, were not excluded by the Neville patent disclosure.

Fourth, the *de novo* standard is inconsistent with precedent, including this Court's opinion in *Markman*. This Court did not hold that the interpretation of patent claims was an entirely "legal" issue. Yet in *Cybor*, the Federal Circuit unwisely chose to justify its *de novo* approach as having been impliedly approved in *Markman*. *Cybor*, 138 F.3d at 1454-55. Within the Federal Circuit, the fiction that claim construction decisions, even those drawing upon extrinsic evidence, are entirely legal matters cannot be reconciled with the Federal Circuit's contrary view in enablement cases, which hold that the district court's assessments from the standpoint of one of ordinary skill must be reviewed only for clear error. *Amgen Inc. v. Hoechst Marion Roussel, Inc.*, 457 F.3d

1293, 1306-07 (Fed. Cir. 2006); *Enzo Biochem, Inc. v. Calgene, Inc.*, 188 F.3d 1362, 1369 (Fed. Cir. 1999). Yet both claim construction and enablement decisions involve an evaluation of the patent from the standpoint of one of ordinary skill in the field of the invention.

Suppose that the question in the trial court was not the meaning of "assigning" but whether the Neville patents enable one of ordinary skill to implement the assignment step by pre-stored instructions – an un-briefed issue the appeals panel purported to decide. In that event, Judge Fawsett's findings would have been reviewable only for clear error. The only explanation for the Federal Circuit's use of such very different standards of review for these two very similar functions is that it is unwilling, even at the sacrifice of logic and precedent, to share any power with district courts in matters of claim construction. This is plainly wrong.

This Court has, of course, declined to review the Federal Circuit's regime of *de novo* claim construction before. But as this case illustrates, the problems the Federal Circuit has created with its *de novo* review are many and continuing, as is the demoralizing impact of this practice on district courts and litigants alike. *See, e.g.*, J. Holderman and H. Guren, *The Patent Litigation Predicament in the United States*, 2007 U. Ill. J. L. Tech. & Pol'y 1, 2-14 (Spring 2007). Yet nothing could be more central to the litigation of a patent than the process for determining the scope and

meaning of its claims. This is the case for correcting this seriously flawed process.

II. The Court Should Review the Federal Circuit's Standard For Determining the Legal Sufficiency of the Evidence in "Patent Preemption" Cases

This Court has not previously reviewed the Federal Circuit's "patent preemption" test, outlined, for example, in *Globetrotter Software, Inc. v. Elan Computer Group, Inc.*, 362 F.3d 1367 (Fed. Cir. 2004), and *Zenith Elecs. Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1355 (Fed. Cir. 1999), for determining whether a patentee's assertion of invalid or non-infringed patents is sufficiently baseless to warrant the imposition of liability under state tort law. There are a number of compelling reasons for doing so in this case.

The "patent preemption" principle holds that "federal patent law preempts state-law tort liability for a patentholder's good faith conduct in communications asserting infringement . . . " *Globetrotter*, 362 F.3d at 1374. State tort law is deemed preempted unless the claimant can establish "bad faith" in the patentee's threats of infringement. *Id.* The Federal Circuit purports to follow this Court's decision in *Professional Real Estate Investors v. Columbia Pictures Indus.*, 508 U.S. 49, 60 (1993), in articulating its "bad faith" standard. As the appeals panel in this case framed the test, "bad faith consists of an objective component" of objectively baseless allegations,

and a subjective component of "subjective bad faith." (App.34-35).

The problem created by the Federal Circuit's "patent preemption" rule lies with its standard of proof, particularly as applied on appeal. If a patentee threatens or sues a competitor's customer with an assertion of infringement that is proven by a preponderance of the evidence to be both objectively baseless and subjectively in bad faith, a jury should be permitted to impose liability under state law. But the Federal Circuit is so focused on insulating patent owners from tort liability that it has effectively eliminated state-law protection from sham litigation altogether. The court has done so with two related conceptual tools never sanctioned by this Court: its application of a clear and convincing evidence standard of proof and its refusal to apply this Court's standard of review with respect to JMOL motions. This Court should review both aspects of the Federal Circuit's "patent preemption" regime.

The court's decision in the present case exemplifies how "patent preemption" is applied in the Federal Circuit. The court held Adept to the burden of proving not only objective baselessness but "clear and convincing evidence that Targus had no reasonable basis to believe that its patent claims were valid or that they were infringed by Adept's customers." (App.34). This "clear and convincing" standard is not merely a benign adjustment to the usual preponderance of the evidence formulation for sham litigation; for the court goes on to determine, as a jury might, under the guise

of the clear and convincing standard, that "Targus *believed* that Vail infringed its patents" (App.39) and that "Targus reasonably *believed*" that its work for Federal Express "was experimental." (App.37). These are the kinds of inferences that only juries can make, under any quantum of proof. The court adds, lest there be any doubt about its actual standard of review, that a "party attempting to prove bad faith . . . has a heavy burden to carry." (App.35). The implication of the court's opinion is that in patent cases an enhanced level of proof of baselessness is appropriate, beyond that announced in this Court's precedent, precisely in order to shelter patentees from liability. What is also implicit in this approach is that juries are not to be trusted to make such judgments even under a heightened standard of proof. This is a completely inappropriate vision of the court's role in appellate review and of the standard to be applied to a Rule 50 motion in such a case.

There is no basis for adding a "clear and convincing" gloss on this Court's existing standard for sham litigation. The imposition of such a heightened standard has been viewed as inappropriate even for protecting many public officials. *E.g.*, *Crawford-El v. Britton*, 523 U.S. 574 (1998). Why accord such protection to patentees who bully competitors by making baseless threats of infringement against their customers? Certainly there is no statutory basis in the Patent Act for doing so. While the Patent Act accords a presumption of validity to patents, 35 U.S.C. §282, it supplies no presumption of protection for a patentee's

assertion of a patent even where no reasonable litigant could realistically expect success in court. By nevertheless imposing such a standard of proof here, the Federal Circuit has unfairly insulated patentees from liability even when they use invalid or non-infringed patents for predatory rather than pro-competitive ends.

The Federal Circuit's standard first surfaced in *Loctite Corp v. Ultraseal, Ltd.*, 781 F.2d 861, 876-878 (Fed. Cir. 1985), *overruled on other grounds, Nobelpharma AB v. Implant Innovations,* 141 F.3d 1059, 1068 (Fed. Cir. 1998), in which the protection of a heightened standard of proof was deemed necessary to encourage innovation and investments in patents. It has thereafter regularly been adopted in tort applications with little or no explanation. *E.g., Golan v. Pingel Enter.,* 310 F.3d 1360, 1371 (Fed. Cir. 2002) (citing no authority or rationale for its adoption). In *Globetrotter Software, Inc. v. Elan Computer Group, Inc.,* 362 F.3d 1367, 1377 (Fed. Cir. 2004), the court reaffirmed the standard, but seemed to suggest that this Court's decision in *Professional Real Estate Investors* was the more reliable source of its clear and convincing standard. But this Court said no such thing in *Professional Real Estate Investors.*

There is no basis in the Patent Act or in the First Amendment for the Federal Circuit's clear and convincing standard for "patent preemption," let alone for its use of that standard on appeal to justify making jury-like inferences as to what parties must have "believed." This Court should hold the Federal Circuit

to the preponderance of the evidence standard for proving baselessness. By so doing, the Court would be bringing the "patent preemption" case law into conformity with *Professional Real Estate Investors,* while also resolving a conflict with the Second Circuit.[5] Neither Congress nor the Court have authorized the Federal Circuit to grant a form of absolute immunity to patentees who make sham threats of patent litigation; but this is effectively what the court has accomplished with its clear and convincing standard on appellate review. Nor can the deprivation of state-law protection for victims of sham litigation, like Adept, be justified by something as ephemeral as encouraging "innovation and its fruits." *Loctite,* 781 F.2d at 877. A patent owner has ample incentive to pursue and to protect its patents without insulation from tort liability for making baseless threats.

More fundamentally, the Federal Circuit has lost sight of its proper role in appellate review of such cases. Though it is true that the appeals court must "view the evidence presented through the prism of the substantive evidentiary burden," *Anderson v. Liberty Lobby,* 477 U.S. 242, 254 (1986), it must also "draw all reasonable inferences in favor of the nonmoving party, and it may not make credibility determinations or weigh the evidence." *Reeves v. Sanderson Plumbing*

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[5] *Litton Systems, Inc. v. Southwestern Bell Tel. Co.,* 700 F.2d 785, 813-14 (2d Cir. 1983) (rejecting the imposition of a clear and convincing evidence standard for sham-litigation antitrust cases).

Prods., Inc., 530 U.S. 133, 150 (2000). What is more, the court must "disregard all evidence favorable to the moving party that the jury is *not required to believe.*" *Id.* (Emphasis added). The Federal Circuit did just the opposite here: it made all inferences in favor of Targus and disregarded all inferences favorable to Adept (App.35-41), even to the point of omitting evidence that the jury doubtless viewed as important – such as the fact that Targus asserted against Adept and its customers a patent (the '131) that it did not even own, that it had granted by contract to Federal Express – a fact Targus had concealed from the patent office. (App.376-377; App.215-217). Yet conduct of this ilk is surely baseless even in the Federal Circuit. *Golan*, 310 F.3d at 1371; *IpVenture, Inc. v. Prostar Computer, Inc.*, 503 F.3d 1324, 1325 (Fed. Cir. 2007) ("Only the . . . entities that own . . . all substantial rights in a patent can enforce rights controlled by that patent . . . ").

Indeed, the court was so intent on insulating Targus from tort liability that it also ignored the application of this Court's still-viable precedent in *Wood-Paper* to the collusive lawsuit between Targus and Vail. In *Wood-Paper* this Court held that a patent lawsuit in which the claimant controls both sides of the dispute is one that lacks a substantial controversy to adjudicate; it is non-justiciable. As this Court later reiterated, if there is no actual controversy between "those who appear as adverse parties, this Court should not give an opinion upon questions of

law." *Fortson v. Toombs,* 379 U.S. 621, 605 (1965), quoting from *Cleveland v. Chamberlain,* 66 U.S. 419, 1 Black 419, 426 (1862). The adverse party Targus added to its patent counterclaim was its own partner, Vail, with whom it was then collaborating to wrest AMC away from Adept. (App.277; App.306). Targus never required Vail to respond. (App.144-152). Instead, it coordinated efforts with Vail so that Vail could make an indemnity demand on AMC, in order to pressure AMC to switch accounts for fear of spending massive sums indemnifying Vail. (App.292-293). Targus and Vail orchestrated the entire "suit" not to adjudicate an actual controversy but as a pretext for pressuring AMC. (App.271-281). Rather than address the impact of the *Wood-Paper* line of cases, however, the Federal Circuit chose to disregard all inferences favorable to Adept – precisely as it was forbidden from doing – and summarized the entire issue this way: "[w]hile Adept *alleges* that Targus and Vail colluded to pressure AMC, Adept fails to cite evidence showing that Targus' *belief* that Vail infringed its patents was unreasonable." (App.39). This is a remarkable pronouncement: it ignores the fundamental point that the jury was not required to believe that Targus ever did "believe" Vail was an infringer or that it had evidence that Vail infringed; it ignores the obvious fact that if Targus was in control of both parties to the "suit" there was in reality no controversy for Vail and Targus to adjudicate; and it ignores the fact that Adept did not just "allege" collusion but that it presented evidence from which the jury could, and did, conclude – on an agreed "clear and convincing"

instruction – that Targus and Vail were acting in concert to intimidate Adept's customer rather than litigating a justiciable controversy between themselves (App.307-308; App.306; App.373-375).

The decision to direct JMOL in favor of Targus under these circumstances cannot be justified simply by labeling Targus' filing of a non-justiciable suit as "subjective." If a claimant files suit in collaboration with the defendant to pressure an interested third party, it is not merely "subjective" to say there is no controversy to litigate. Hence if *Wood-Paper* remains the law, the Vail-Targus claim could properly be viewed by the jury as objectively baseless, for "no reasonable litigant" in a feigned controversy "could realistically expect success on the merits." *Professional Real Estate Investors*, 508 U.S. at 60.

Nor is this case an anomaly. The Federal Circuit has committed itself not to follow the proper standard for JMOL motions in "patent preemption" cases, even if in so doing it is ignoring its institutional role on appeal and the precedent of this Court.[6] Yet if the Federal Circuit will not apply this Court's standards for JMOL motions, to whom may aggrieved parties turn but this Court? *See, e.g., Pfizer, Inc. v. Apotex, Inc.*, 488 F.3d 1377, 1380 (Fed. Cir. 2007) (Lorie, J.,

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[6] The court purports to apply regional circuit law, here that of the Eleventh, in reviewing Rule 50 motions, but that circuit follows this Court's standard, while the Federal Circuit did not. *E.g., Cleveland v. Home Shopping Network, Inc.*, 369 F.3d 1189, 1192-93 (11th Cir. 2004).

dissenting) (discussing the grudging en banc review standards).

CONCLUSION

Adept's petition for a writ of certiorari should be granted.

Respectfully submitted,

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